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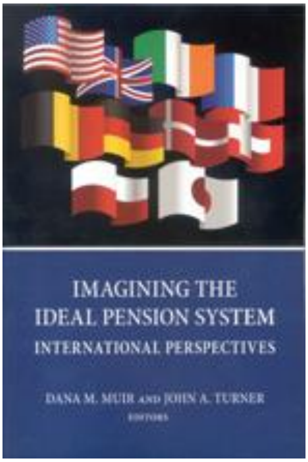
Aging in the Shadow of the Three Pillars: A Generation of Pension Debates in Switzerland (1972-2010)



Matthieu Leimgruber
University of Geneva

Chapter 9 (pp. 225-248) in:
Imagining the Ideal Pension System: International Perspectives
Dana M. Muir and John A. Turner, eds.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2011
DOI: 10.17848/9780880993920.ch9

Imagining the Ideal Pension System

International Perspectives

Dana M. Muir
John A. Turner
Editors

2011

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Imagining the ideal pension system : international perspectives / Dana M. Muir, John A. Turner, editors.
p. cm.
"This book is based on the 2010 conference of the European Network for Research on Supplementary Pensions (ENRSP), held at the Economic Policy Institute in Washington, D.C., on September 10, 2010"—Foreword.
Includes bibliographical references and index.
ISBN-13: 978-0-88099-381-4 (pbk. : alk. paper)
ISBN-10: 0-88099-381-2 (pbk. : alk. paper)
ISBN-13: 978-0-88099-382-1 (hbk. : alk. paper)
ISBN-10: 0-88099-382-0 (hbk. : alk. paper)
1. Pensions. I. Muir, Dana M., 1958- II. Turner, John A. (John Andrew), 1949 July 9- III. European Network for Research on Supplementary Pensions.
HD7091.I464 2011
331.25'2—dc23
2011038440

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

Cover design by Alcorn Publication Design.
Index prepared by Diane Worden.
Printed in the United States of America.
Printed on recycled paper.

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Aging in the Shadow of the Three Pillars

A Generation of Pension Debates in Switzerland (1972–2010)

Matthieu Leimgruber
Paul Bairoch Institute of Economic History, University of Geneva

THE BEST PENSION SYSTEM IN THE WORLD?

Since its consecration by the World Bank in its well-known report, *Averting the Old Age Crisis* (1994), as well as its adoption a decade later in an EU directive on pension funds, the three-pillar doctrine has been one of the potent metaphors of contemporary pension reform (Coron 2007; Tausch 2002). The principles underlying this model are well known: state pay-as-you-go pensions (first pillar) should remain a basic component, to which occupational (second pillar) and individual (third pillar) prefunded pensions should be added. This structure may seem at first a neutral and factual depiction of the inherent nature of modern pension systems. Yet, the pillar doctrine has a strong normative dimension: it aims both to contain the scope of pay-as-you-go state (social security) pensions and to favor funded solutions whose management is devolved to private financial institutions.

Switzerland occupies a special position in this reform discourse. Indeed, the country is a pioneer of the three-pillar doctrine, whose principles have been anchored in the Federal Constitution since 1972. In early 2010, a leading pension consultancy firm even awarded Switzerland, and in particular its mandatory second occupational pillar, a gold medal, designating it as the “best pension system in the world” (Mercer 2010).[1] This ranking underscored the enthusiasm for the Swiss pension system among the financial actors who are involved in its management. Consider this somewhat arrogant statement from a Swiss Re economist: “The Swiss pension system comes off rather well in comparison to the rotten social insurance systems of its European neighbors [and] rightly deserves the high esteem it receives from abroad: its foundations are properly laid” (Trauth 2000). More could be said of the international diffusion of the multi-pillar doctrine, notably on the role played by Swiss insurers in this process before the 1994 adoption of the doctrine by the World Bank (Leimgruber 2009). Moreover, as is often the case when foreign national examples are summoned and designated as models, accolades and rankings often remain silent on the controversies and struggles that structure these national systems.

On March 7, 2010, a large majority (72.7 percent) of Swiss voters turned down a proposed reduction in the conversion rate that determines the calculation of second pillar benefits, which would have effectively reduced those benefits.[2] This reduction, which had been presented as a necessity to ensure the long-term financing of occupational pensions facing demographic aging and uncertain financial returns, was supported by the Federal Council (the executive branch), right-wing parties—who enjoyed a comfortable majority in the Federal Parliament at that time—as well as business associations, the pension lobby, and the insurance industry. The main Swiss trade union (UNIA), the Socialist Party, and consumers’ associations strongly opposed the proposed cut in pension benefits. As soon as the conversion rate had been accepted by Parliament in late 2008, these forces launched a popular referendum that gathered 125,000 signatures in 30 days, whereas only 50,000 in 90 days were necessary.[3] A stormy political debate preceded the March 2010 vote. The main Swiss business association, Economiesuisse, allegedly spent 10 million Swiss francs (CHF) in favor of a “yes” vote (Wuthrich 2010).[4] However, the well-oiled campaign of political power, mainstream media, and business associations floundered: the denunciation of “pension theft” and of the meddling of financial interests into pensions carried the day.

The long-term impact of the referendum vote is still uncertain, but its importance cannot be underestimated. First, the referendum underscores the increasing polarization of occupational pension debates, after decades during which these had remained confined to experts. The March vote also has a historic dimension. It is the first time since

1972, when the three-pillar doctrine was added to the Constitution, that Swiss voters have expressed their views on the second pillar. After a generation of maturation, occupational pensions now occupy a central position in Swiss old age provision. This chapter analyzes these three aspects so as to place the March 2010 vote in a larger historical context and to highlight the antagonisms that currently agitate the discussions of the Swiss second pillar.

THE TRAJECTORY OF THE THREE-PILLAR DOCTRINE IN SWITZERLAND

This chapter cannot retrace the century-long trajectory of Swiss occupational pensions (see Box 9.1 for a short summary). I will instead underline five key features that have shaped the pension system (see Table 9.1 for more information on the different pillars).

First, the histories of the different pillars of the Swiss pension system have always been deeply interconnected. The existence of a strong private pension lobby has contributed both to the belated introduction of the Old-Age and Survivors' Insurance (AHV, the first pillar, introduced in 1947) and to the moderate expansion of this pay-as-you-go basic social security pension during the postwar growth decades. This moderation favored the gradual and selective development of pension plans and enabled them to remain largely autonomous vis-à-vis the federal state. The 1972 vote on the three-pillar doctrine not only aimed to improve pensioners' incomes by granting a supplementary benefit to almost all wage earners. It first and foremost aimed to contain (in the anticommunist meaning of the period) the development of the pay-as-you-go AHV and to preserve funded pensions from being marginalized by the "people's pensions" project. The three-pillar doctrine succeeded in blocking this alternative path and steered the pension system in another direction. From 1972 onward, all future improvements of pensions have been dependent on the expansion of funded occupational pensions (the second pillar). I will return below to the long-term consequences of this crucial crossroads, but we can immediately grasp its importance by examining Figure 9.1. Since the 1970s, old-age pensions have represented about half of overall social expenditures. However,

Box 9.1 Origins of the Three-Pillar Doctrine in Switzerland[5]

1918–1948: A divided pension system

With the exception of a handful of pioneering firms and public administrations, the “big bang” of occupational provision can be dated from 1916. A federal tax on war profits enacted that year introduced special deductions for firms that created a pension or welfare fund for their workers. By the end of World War I, life insurance companies sold their first group pension contracts and participated in the development of the pension market. By 1930, 18 percent of the nonfarm workforce was covered by funded plans with reserves that represented 26 percent of GDP in 1937. The development of occupational pensions was facilitated by the failure to enact state pensions at the federal level (old-age and survivors’ benefits, or AHV) in 1931. After slowing down during the economic depression of the 1930s, the expansion of pension plans accelerated during World War II. The federal government also launched a new AHV project during the war, which was finally overwhelmingly accepted by the voters in 1947. The first AHV pension checks were modest (amounting to 10–15 percent of wages), so as neither to compete with existing pension plans nor hinder the creation of new ones.

1948–1972: The three-pillar doctrine versus the people’s pensions

During the postwar growth decades, an informal division of tasks was established between the AHV (the future first pillar) and occupational plans (the future second pillar). While the AHV provided a basic pay-as-you-go benefit, occupational plans increased their coverage from 20 percent (1955) to 30 percent (1970) of all wage earners, offered very differentiated benefits, and played a key role in personnel management. The financial reserves of the occupational plans were already considerable and reached 40 percent of Swiss GDP by 1970. The three-pillar doctrine was elaborated during the 1960s. This concept was favored by the political right, business, and insurers and aimed to anchor occupational plans in the old-age retirement system and thus contain the expansion of the pay-as-you-go AHV. It was also supported by trade unions seduced by the idea that they might obtain a larger say in firm management through the boards of pension plans. The “people’s pensions” was an alternative proposal favored by the left wing of the Socialist Party and other far-left groups. Its aim was to expand the pay-as-you-go component (AHV) of the pension system to the detriment of its funded plans. The three-pillar doctrine, at the core of which is the idea of mandatory second pillar occupational pensions, was finally accepted by a large majority of voters in 1972. The leadership of the Socialist Party, as well as trade union secretaries, contributed to this victory by convincing their rank and file of the necessity to implement a state mandate so as to guarantee pensions that would be both generous and partly co-managed by workers' representatives.

Unresolved issues on the scope and content of occupational plans were later addressed in the Federal Law on Occupational Pensions (BVG, 1982–1985), but this law did not address the demands made a decade earlier by the left and largely preserved the autonomy of occupational pension plans.

the relative importance of each pillar has changed. While AHV expenditure (as a percentage of GDP) has remained stable since 1980, second pillar expenditures have more than doubled during the same period, and prefunded pension expenditures now exceed those of the AHV. These numbers do not tell us anything about the respective importance of each pillar in pensioners' income, but they clearly illustrate the maturation of occupational provision. Today, as during the twentieth century, the pension pillars do not evolve in isolation. Unfortunately, the policy cycles followed by the AHV and the second pillar are seldom synchronized, which may blur a proper understanding of their enduring interconnections.

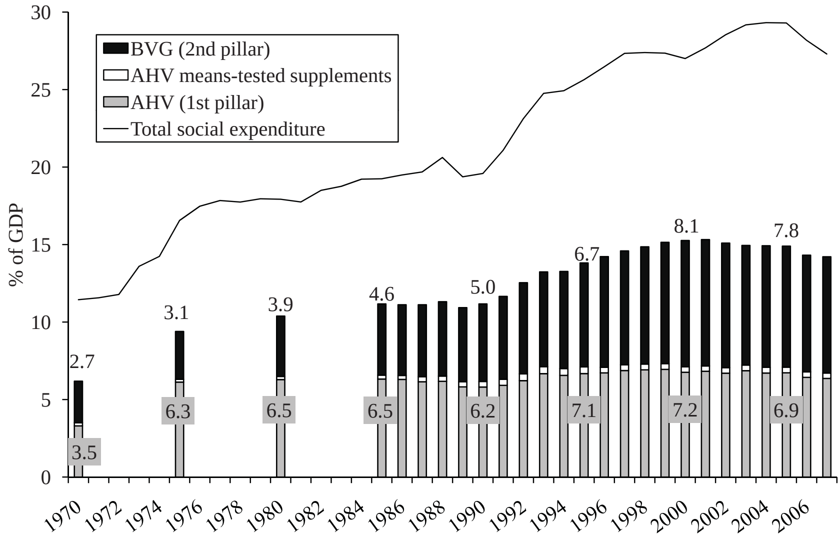
Second, despite state regulations, occupational provision remains a domain in which private interests retain a great deal of influence. Despite its institutional fragmentation (over 2,000 pension plans were in operation in 2010) and the existence of large pension plans in the public sector, occupational provision is dominated by a powerful lobby, composed of large autonomous corporate plans, a handful of life insurance companies, and various pension experts and consultancies. Insurers in particular have nurtured an important pensions market since the 1920s and have played a key role in shaping business perspectives on old-age provision.[6] By 2010, group insurance pension contracts covered about 40 percent of wage earners affiliated with mandatory second pillar pensions (BVG). Insurance companies also managed one-fifth of second

Table 9.1 The Swiss Three-Pillar Pension System (2010)

	Old-age and survivors' insurance (AHV, 1st pillar)	Occupational pensions (BVG, 2nd pillar)	Individual savings (3rd pillar)
Key institutions and actors	Confederation	2,430 pension plans: autonomous corporate plans, group contracts, and "collective foundations" (multi-employer plans)	Life insurance companies and banks
Coverage	Universal coverage	About 90 percent of the workforce Wage entry floor = CHF19,890 of annual income or 75% of a maximum AHV pension	Voluntary affiliation: approximately half of the working population subscribes to a "linked" 3rd pillar account ("3a account," see below)
Financing mode	Pay as you go: payroll tax (8.4% levied on all wages without ceiling, provides 75% of financing needs), state subsidies (20%), and AHV reserve fund (5%)	Funded: payroll tax (8–10% of wages); the wage ceiling above which the BVG payroll tax is not levied is equal to three times the maximum AHV pension.	Funded individual savings: voluntary contributions are capped. Wage earners with BVG coverage may contribute CHF6,566 per year, while self-employed without BVG coverage may contribute CHF32,832 per year.

Benefits	Ranging between CHF1,140–2,280 per month, mixed indexation (wages and prices) State authorities provide supplementary means-tested old-age assistance (AHV Ergänzungsleistungen; AVS)	Benefits and indexation procedures vary among pension plans. Benefits can also take the form of lump sums.	Annuities or lump sums
Reserves and assets	Approximately one year of expenditure (about CHF3 billion)	About CHF600 billion	About CHF60 billion
Replacement income	Combined AHV and BVG benefits should offer replacement rates of at least 60 percent of wages.		Negligible role in old-age provision, but key tax deduction for higher income population. Tax expenditure for 3rd pillar accounts cost CHF450 million to the Confederation each year.

Figure 9.1 Social Expenditure and Pension Expenditure (% of GDP, 1970–2007)



pillar pension reserves (about CHF125 billion). Occupational provision is the source for half of life insurance premiums levied in Switzerland.[7] Life insurers' prominence has been, and is still, a source of tension among business interests. Small- and medium-size entrepreneurs often resent the conditions imposed on them by insurance actuaries. However, the main business associations and actors of the pension industry agree on defending the basic principles of the three-pillar doctrine.

Third, the integration of trade unions into management of occupational pensions has led to ambivalent outcomes. Pension comanagement and workers' participation on pension boards was a longstanding union demand and has constituted a major activity for union representatives. These boards have increased trade union acquiescence toward business personnel management goals while making impossible any genuine "workers' control" of pension funds. Union participation in the three-pillar doctrine has thus reinforced funded old-age provision to the detriment of more redistributive pay-as-you-go provision.

Fourth, old-age benefits are only one facet of the second pillar. Since their inception, occupational plans have been used by employers to favor "labor peace" and facilitate personnel management. Tax deductions for pension plans have always been an important incentive for business. Fifth, the funded reserves of the second and third pillar are considerable. The pillar structure thus offers a profitable business activity for the insurance companies and banks that participate in the management and investment of pension reserves. For the reasons mentioned above, life insurers are particularly well entrenched at the core of occupational pension provision. Unsurprisingly, this situation has been criticized by the left and trade unions, which underscores the contradictions between the growing role of occupational provision in retirees' incomes and insurers' profit goals.

Finally, it is important to consider the Swiss pension system in an international comparison. Switzerland belongs to the leading OECD countries in terms of private social expenditure for health and pensions (Table 9.2). The Swiss pension system bears little resemblance to its French and German neighbors, but is much more similar to those in the Netherlands as well as the United Kingdom and the United States. The decentralization of Swiss occupational provision and insurers' involvement in pensions is similar to the systems in the United Kingdom and the United States, but the post-1972 expansion of the mandatory second pillar has brought Switzerland closer to the Dutch system, with one important difference. Large multi-employer plans linked to collective bargaining are central to Dutch occupational provision, while such institutions play a marginal role in Switzerland.

The elements enumerated above underscore the critical role of the mandatory second pillar in the Swiss pension system. After the 1972 vote, the history of occupational provision can be divided into three periods. From 1972 to 1982, the outcomes of the political negotiations on BVG legislation favored the expansion of pension plans while maintaining a mild regulatory framework. In a second phase, from 1982 to 2000, occupational pension provision continued to expand among the workforce while the issue of its regulation remained off the political agenda. These first two periods are briefly analyzed in the next section, and as we will see in the fourth section of this chapter, the current radicalization of second pillar controversies from 2000 onward is a direct consequence of this long-term maturation process.

Two opposing dynamics structure the post-1972 period. The first dynamic, fueled by demands from the political left and trade unions, has aimed to reinforce the collective and redistributive elements of the

Table 9.2 Private Social Expenditure: An International Comparison

	Mandatory and voluntary private social expenditure (% GDP, 2005)		Private social expenditure as a share of total social expenditure (%, 2005)	Pension funds assets (% GDP, 2007)
	Old age, health and disability	Only old age		
United States	10.1	3.8	38.9	140.6
Switzerland	8.4	5.3	29.3	151.9
Netherlands	8.3	4.1	28.5	149.1
United Kingdom	7.1	4.7	25.1	96.4
OECD average (30 countries)	2.9	1.5	11.8	111.0[a]
France	3.0	0.2	9.3	17.9
Germany	3.0	0.8	10.1	6.9

SOURCE: Federal Office of Statistics (OFS), Federal Social Insurance Administration (OFAS), and Financial Market Authority (FINMA).
[a] Pension fund assets as a percentage of overall OECD GDP.

second pillar, to bolster solidarity between their members, and to submit pension plans to stricter state regulation. Contrary to these aims, business forces and the pension lobby have fought to safeguard the autonomy of pension plans, develop the pension market, and limit the solidaristic dimensions of the second pillar. These two antagonistic dynamics are riddled with internal contradictions. How indeed is it possible to increase “social solidarity” in a second pillar whose original aim was to limit solidarity and redistribution? At the same time, recent pension controversies underscore how it is difficult for proponents of pension funding to disentangle themselves from the growing social obligations linked to the maturation of the second pillar.

THE THREE-PILLAR DOCTRINE IN PRACTICE (1972–2000)

The decade that followed the 1972 vote witnessed the abandonment of the pursuit of a second pillar system that had universal coverage, offered benefits modeled on the best pension plans of the time (mostly public service defined benefits plans), and had extensive co-management procedures and robust state regulation. These objectives, all of which had figured among the arguments presented in 1972 by the Socialist Party leadership as a substitute for the people’s pensions, faced considerable obstacles. Indeed, the political right, businesses, and the pension industry worked to safeguard the autonomy of existing plans and to allow plans to choose freely between defined benefit or defined contribution structures (which were then in the majority among private sector plans). These groups also downplayed the constraints of the state mandate by introducing into the Federal BVG law a wage floor under which low-wage workers would not be covered by the second pillar as well as a wage ceiling above which firms could freely organize supplemental benefits for handpicked categories of employees.

The turn toward austerity that followed the economic crisis of the 1970s, continued business determination to limit the scope of the state mandate, and the abandonment of the people’s pensions alternative all were factors in the legislative debate that led to the adoption of the 1982 BVG law on the mandatory second pillar. The complexity of occupational provision also contributed to keeping these debates buried in experts' commissions and away from public scrutiny (Hafner 2004; Lusenti 1989; Rechsteiner 1984). In 1978, a first BVG draft failed to obtain a parliamentary majority. Even if they had pushed for the BVG, insurers were not dissatisfied by this outcome, which was the result of increased business resistance toward too much state regulation of pension plans. Considering this failure as "non-tragic," the directors' board of Winterthur Life, a leading group pension provider, underscored in December of that year that "efforts to simplify the law [were] in the interest of [our] company."[8]

The outcomes of the state mandate implemented in 1982 have remained ambiguous. The immense majority of wage earners were now covered by pension plans, but lower wage workers and temporary workers, primarily women, struggled to overcome the wage floor limiting participation in the mandatory pensions system. The constitutional aim stating that AHV (social security) and BVG occupational pension benefits should reach a combined replacement rate of 60 percent of former wages remained insufficient for those with low incomes. The level of BVG benefits, as well as their indexation, continued to vary considerably. Finally, the institutional decentralization of occupational provision, its opacity, the gradual phasing in of portability rights, and the absence of labor-management boards among the myriad of group pension contracts covering small- and medium-sized firms only reinforced the complexity of the pension system. In parallel to the implementation of the BVG pension law, AHV social security benefits were de facto frozen. Their replacement rate (about one-third of wages) has not improved since the eighth AHV revision enacted in 1973–1975. The introduction of benefits indexation in 1978 has only maintained this level. The mandatory second pillar has acted as a Trojan horse by anchoring in the middle of the pension system institutional and funding mechanisms that counteract the redistributive and solidaristic dimensions of social insurance.

While the BVG pension law has had an ambivalent impact on the quality and level of benefits, notably for low-wage workers and women, it has spurred the pension market and notably life insurers' activities. Between 1983 and 1985, or the time that elapsed between the final parliamentary vote on the BVG and its implementation, the annual profits of Rentenanstalt/Swiss Life tripled (Hafner 2004; Hepp 1993). The expansion of the second pillar mostly concerned small- and medium-sized firms that instituted group pension contracts to comply with the mandatory requirement. Banks and insurance companies also benefited from the financial flows generated by the opening of individual third pillar savings accounts. The third pillar today plays an important, though mostly symbolic, role. The concept of personal responsibility and individual savings is included in the pension system, which offers tax deductions to people with higher incomes, while playing a negligible role in most pensioners' overall incomes.

In the end, the "constraints of obligation" introduced by the BVG pension law have remained mild and the law, according to economist Graziano Lusenti (1989), respected the "traditional framework" of occupational provision and limited itself to "minimal dispositions" and "half measures." The number of persons receiving BVG mandatory pension benefits to supplement their AHV social security pension remained rather low until the 1990s. At the same time, the buoyant financial markets of the 1980s and 1990s offered a favorable context for the maturation of the second pillar. Pension plans could easily comply with one of the framework regulations introduced in 1985, namely the obligation to guarantee a minimum 4 percent rate of return on invested BVG pension assets. During this period, pension funds consolidated their positions as key institutional investors (Theurillat, Crevoisier, and Corpataux 2006). The experience gathered by Swiss insurance companies in the domain of occupational provision also enabled them to participate in foreign markets (e.g., in Eastern Europe and Latin America), where a transnational social security reform campaign orchestrated by financial international organizations was taking place (Lordon 2000; Orenstein 2008). Renewed demands from the parliamentary left for an amelioration of the BVG pension law long remained without concrete impact, and until the late 1990s, the second pillar continued its development without enduring much political scrutiny. This below-the-radar evolution highlights the asynchronous nature of pension debates, which mainly focused on the AHV pension during the 1990s. A brief overview of these controversies is useful as it reveals dynamics that are currently at play in the second pillar.

Even though AHV pension benefits were frozen, attempts to improve them continued and focused in particular on pension inequalities between men and women. In a context characterized by recurrent economic crises and continuing austerity pressures, these efforts culminated in a tenth revision of the AHV, implemented in 1995. This revision introduced several improvements for women, including replacing "couple benefits" with individual ones and introducing pension bonuses that accounted for years spent raising children. It also inaugurated the first increase in the retirement age for women (from 62 to 64 years) as well as cuts in widowers' benefits. A proposed eleventh AHV revision envisioned annual cuts in benefits amounting to about CHF1 billion. The revision was condemned by the left and trade unions as antisocial and challenged through a strong referendum campaign, and floundered in early 2004. A new draft of the revision faced much controversy before being buried again in autumn 2010. This transition from compromise to clear-cut conflict underscores the hardening of pension debates in Switzerland and notably the resistance to austerity cuts presented as necessary consolidation measures.

AHV social security benefit reform packages combining improvements and cuts have attracted the attention of political scientists (Bertozzi, Bonoli, and Gay-des-Combes 2005; Bertozzi and Gilardi 2008; Bonoli 2004). Yet they have only recently integrated the second pillar in their analyses. This renewed interest is linked to the current maturation of occupational provision and attempts to reform the system in a period of demographic and financial uncertainty.

While the number of pension plans has fallen steeply since the late 1970s as a result of consolidation, the basic institutional structures of the second pillar have not fundamentally changed (Table 9.3). Despite the losses incurred during the dot com crash and the financial crisis that started in 2008, second pillar pension assets still exceed Swiss GDP. Occupational provision is still dominated by a few dozen large pension plans managed by leading firms and public administrations, as well as a few insurance companies. Leading pension providers, such as Swiss Life or AXA-Winterthur, cover about half of the 1.6 million persons covered by group contracts (FINMA 2009). By contrast, mandatory participation in the second pillar has led to a threefold increase in the number of pension beneficiaries and a resulting increase in benefit payments. This maturation constitutes an obvious source for the growing controversies that have characterized occupational pension provision in the recent period. Second pillar pension institutions have not been spared the challenges of rising life expectancy, especially in a period riddled with recurring financial crises and sluggish economic growth.

Table 9.3 The Maturation of the Second Pillar (1978–2008)

	1978	2008
BVG pension plans	>10,000	around 2,400
Insured persons—millions (as a % of the workforce)	1.3 (50%)	3.6 (>85%)
Of which: coverage by group pensions	40%	40%
BVG pensioners—millions	0.3	0.9
As a comparison: AHV pensioners—millions	1.0	2.0
BVG benefits—CHF billions	4.0	28.4
As a comparison: AHV benefits—CHF billions	9.8	33.5
BVG assets—CHF billions (as a % of GDP)	82 (54%)	660 (123%)
As a comparison; AHV reserve fund—CHF billions	9.7	38.3

SOURCE : *La prévoyance professionnelle en Suisse. Statistique des caisses de pension*, various years, Swiss Federal Statistical Office.

Moreover, popular expectations of second pillar pensions have remained high. This is the case not only because mandatory BVG pensions play a growing role in pensioners' benefits, but it is also the result of two decades of alarmism about the sustainability of AHV pensions, which has shifted popular views of the alleged safe haven of occupational benefits. The hopes that people have in terms of pension provision from the second pillar may well contradict the priorities of the pension providers. This evolution sets business and life insurers in a tricky situation. They have successfully contained the AHV social security program and redirected pension development toward funded solutions, but after having cashed in on the expansion of occupational provision caused by the BVG pension law, the pension plans now have to face increasing obligations.

Finally, the political left and trade unions have pursued their efforts to improve BVG pension benefits, which they consider as insufficient for many low-wage workers. These forces disapprove of financial consolidation measures to reduce pensioners' incomes, underscore the hefty management costs of pension plans, and disapprove of their lack of transparency. The long-term maturation of the second pillar as well as the contradictory demands faced by the system have spurred a shift from a fragile political quid pro quo to open confrontation. The recent controversy on the BVG benefits conversion rate thus constitutes the second act of an ongoing controversy that began a decade ago during the first BVG revision.

FROM COMPROMISE TO DIRECT CONFRONTATION (2000–2010)

Although the political rhythms of the first two pension pillars remain disjointed, debates focused on one of them have often, even if belatedly, been echoed in the other. Thus, in the wake of the tenth AHV revision, proposals to improve the second pillar have also focused on the situation of women. From the end of the 1990s onward, the left has repeatedly demanded a better integration of low-wage earners in the BVG pension system through lowering the minimum wage requirement for pension coverage as well as an extension of joint management procedures to group pension contracts. The Federal Parliament finally acceded to these demands in 2003 but not without adding a reduction of the BVG conversion rate (from 7.2 percent to 6.8 percent by 2014, resulting in reduced pension benefits) to ensure long-term financing. This compromise enabled the passage of the first BVG revision and insulated it from a potential referendum campaign. During the same period, the eleventh AHV revision faced heated controversies and failed to pass the referendum hurdle.

The BVG pension law compromise reached in 2003 combined contradictory evolutions. On one hand, the lowering of the BVG wage floor (from 100 percent to 75 percent of a maximum AHV pension) partially took into account atypical work situations (primarily temporary and part-time work) as well as women's structural under-participation in pension plans (Leimgruber 2010). On the other hand, the reduction of the conversion rate constituted a first attack against a key feature determining the level of BVG benefits. Moreover, while the argument of financial consolidation has been systematically used to frame pension debates for the last 20 years, the financial crises of the early twenty-first century have also weighed on reforms implemented outside the scope of the BVG.

The dot com stock market crash of 2000–2001 caused the first losses in overall BVG assets since 1985. This financial crisis also served as the background for an intense campaign by insurers eager to disentangle their companies from BVG constraints. In other words, the debate about the consolidation of the second pillar is also a battle led by private interests to preserve their influence and autonomy in this domain. The 2003 compromise was thus accompanied by important measures that escaped the referendum mechanism. After sustained lobbying from insurers, the Federal Council lowered the guaranteed minimum BVG pension rate of return on investment from 4 percent (the level fixed in 1985) to 3.25 percent in 2003; then it was allowed to fluctuate (reaching 2.25 percent in 2004 and then 2.75 percent in 2008, before falling to 2 percent in early 2010). Insurance companies also unilaterally lowered the conversion rate used for benefits above the BVG ceiling. Because of the complexity and institutional decentralization of the second pillar, resistance against these two measures has been largely ineffectual. In 2004, the Federal Council granted insurance companies the controversial right to keep 10 percent of the investment returns of BVG assets. This decision, which generates about CHF500 million annually in revenues to insurers, has been denounced by pension experts who consider it to be contrary to the nonprofit goal of the BVG (Killer 2009; Molo 2009).

All of these measures enacted in parallel with the first BVG revision underscore the permeability of the second pillar to private interests that have extensive means to shape the pension system. By contrast, these measures also underscore the fragile position of trade unions. Forced to accept "realist" compromises that end up having a negative impact on pensioners, trade unions have less leverage to counteract such dynamics.

Since 2000, public sector pension plans have faced increasing consolidation pressures as well. These pressures are part of the offensive against the few progressive dimensions of the second pillar. Because public sector plans tend to offer more generous benefits than those in the private sector, submitting them to financial consolidation requirements is a powerful weapon linked to fiscally conservative campaigns waged against public budgets. Derided as onerous privileges, public sector pension plans face recurrent attacks and relentless austerity drives (Guex 1998).

Finally, the resurgence of radical reform proposals signals the hardening of debates about pensions and their future. Left-wing critics of the three-pillar doctrine have continued to argue in favor of an exit strategy from costly pension funding and a reinforcement of the pay-as-you-go AHV social security system. However, such positions remain minority opinions confined primarily to the left wing of trade unions (Swiss Trade Union Federation 2006). On the other side of the political divide, several free-market economists have repeatedly criticized the collectivist dimension of the second pillar and advocated the introduction of free choice in occupational pension provision. This option would lead to an individualization of the second pillar by severing the link between job contracts and pension plan affiliation (Gerber 2004). For the moment, this proposal has attracted only limited support among employers' associations. Fearing that free choice might reopen the Pandora's Box of alternative pension proposals and lead to endless conflicts with trade unions, employers' associations recognize the pertinence of the idea but are loath to follow this path (Hasler 2003). Experts have also lambasted the option as inappropriate because it would disorganize and imbalance the present system (Pittet, Pittet, and Schneider 2005). In the meantime, individual retirement accounts have continued to expand—no less than 2.7 million persons (out of a population of 8 million) have a third pillar individual account. However, contributions to these accounts (whose reserves are estimated at CHF60 billion) are very unequal. The first serious study on the subject done by the Federal Tax Administration in late 2009 confirmed that the main beneficiaries of the system are the banks, which offer low rates of return while having access to a steady flow of contributions, and the upper middle class, who benefit the most from the tax deduction granted to individual retirement accounts. These tax subsidies represent annual losses of CHF450 million for the Confederation, while these individual third pillar accounts play only a minor role in pension provision, even among higher income retirees (Peters 2009; see also NZZ 2009).

CONCLUDING COMMENTS

In retrospect, the March 2010 vote should not be viewed as an isolated event, but rather an important moment in a particularly turbulent phase of social policy development. As early as 2002, insurance companies had already argued in favor of a benefit conversion rate of 6.4 percent. The fact that the first BVG revision settled at 6.8 percent was not considered sufficient, and pressures to further reduce the rate continued. The controversial decision to lower the rate in late 2009 had little to do with the financial crisis that began in 2008 even if proponents of the decrease used the crisis to stress the urgency and necessity of lowering the conversion rate. In a context that witnessed costly state intervention in favor of Swiss banks such as UBS, business appeals to implement financial consolidation impacting pension benefits have caused resentment among the general public, even among the traditional electorate of right-wing parties.

While the unequivocal result of the March 7 vote represents a clear disavowal of the reform favored by the political right and business, its medium-term impact remains to be seen. Immediately after the vote, the political left and trade unions tried to capitalize on the referendum success to present a series of demands aiming both to improve pension benefits for low-wage earners (e.g., an increase in the combined replacement rate of the first and second pillar to 80 percent of past wages, compared to 60 percent today) and to more closely regulate life insurance companies offering group contracts. Pressure remains high on insurers, as illustrated by a recent parliamentary motion that demands their eviction from the BVG pension system and their confinement to supplemental benefits of higher paid employees. However, such proposals will have much difficulty to get beyond the point of political gesturing. Less than two weeks after the March 7 vote, the left already had to focus its forces on a new referendum—this time to oppose cuts in unemployment insurance. While commentators briefly feared a repeat of the March vote, the unemployment insurance reform cleared the referendum hurdle in September. A few weeks after, the new version of the eleventh AHV revision floundered in the Federal Assembly, after failing to clear a final vote. The left had already announced its intention to oppose the revision, and its minority position was bolstered at the last minute by votes from the Swiss People's Party. This important right-wing populist group was in favor of cuts in AHV pensions but preferred to vote down the revision rather than allow the left to launch a referendum campaign that might have been a distraction to the political right during the run-up to the federal elections of Autumn 2011 (NZZ 2010c,d).

These contradictory outcomes show that the March referendum victory was not sufficient to block the long-term offensive against the level of pension benefits. As is often the case in Switzerland, the multiplication of referendum campaigns might drain and splinter left-wing forces in struggles against an agenda set by the political right and business interests. Indeed, these forces have not abandoned the objective of the financial consolidation of the second pillar. They still dictate the agenda and rhythm of reforms, not only in old-age provision, but also in the other domains of social protection. Several elements hint that business forces and the right are not ready to disarm. Before prudently backtracking a few weeks before the March 7 vote, the Liberal-Radical party (the main center-right party) discussed the possibility of launching a popular initiative to demand automatic cuts in social insurance programs in case of budget deficits. The idea of a “deficit brake,” which might help disarm referendum campaigns and “depoliticize” social debates, has also been taken up by the main business associations. In a similar vein, the Federal Council has spoken in favor of linking the evolution of the BVG benefit conversion rate to economic and demographic variables, which will also exert automatic downward pressure on the rate (NZZ 2010d).

Whatever issues these ongoing debates might have, they confirm the increasing centrality of the second pillar provision in present and future pension debates. Despite the controversies that may surround it, the three-pillar doctrine still remains the foundation of the Swiss pension system. In this context, submitting the core principles of the doctrine to a thorough critical analysis and untangling what is at stake in supposedly technical reforms is absolutely necessary.

Notes

1. The 13 countries considered were all important pension markets. Switzerland topped the ranking, followed by the Netherlands, Australia, Sweden, and Canada. Other countries mentioned were the United Kingdom, the United States, Chile, Singapore, Germany, China, and Japan. See http://www.mercer.com/globalpensionindex and *Neue Zürcher Zeitung* (NZZ 2010a). This preranking seems to have been leaked to the main Swiss financial newspaper to serve as an argument in the referendum campaign analyzed in this paper. In the final index, published on October 20, 2010, Mercer split the highest award between Switzerland and the Netherlands (see NZZ 2010b; Mercer, 2010).

2. The BVG conversion rate is used to calculate the annual BVG pension from the overall BVG assets accumulated during a work life. Let us consider an employee whose BVG assets amount to CHF600,000 at the age of 65. With a 7.2 percent conversion rate (the rate between 1985 and 2004), her annual pensions would have amounted to CHF43,200. With a 6.8 percent rate (the rate enacted in 2004 and to be implemented in 2014), her pension would be lowered to CHF40,800. The proposed new law would have further reduced the conversion rate to 6.4 percent.
3. Feuille Fédérale (2009, p. 2937); see also http://www.swissvotes.ch.
4. As of August 2010, CHF1 = $0.96 = €0.72.
5. See Leimgruber (2008).
6. The Swiss Pension Funds Association (Association suisse des institutions de prévoyance, ASIP) is the direct heir of the first pension funds association founded in 1922. See also Leimgruber (2006).
7. See Swiss Financial Market Supervisory Authority (FINMA) at http://www.finma.ch.
8. Winterthur Directors' Board, December 5, 1978, quoted in Jung (2000).

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